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Chairman: Mr. MacKay ..... (New Zealand)
Chairman of the Advisory Committee on Administrative and Budgetary Questions: Mr. Kuznetsov

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The meeting was called to order at 10.10 a.m.

Agenda item 110: Improving the financial situation of the United Nations (*continued*) (A/59/524/Add.1)

1. **Mr. Sach** (Controller) said that he wished to update the information regarding the regular budget, the peacekeeping budget and the overall budget situation provided in the report of the Secretary-General on improving the financial situation of the United Nations (A/59/524/Add.1).

2. In paragraph 12 of the report, the number of Member States which had paid their assessed contributions in full should be changed from 72 to 75, to reflect payments received in May 2005 from Botswana, Cape Verde and Romania. In paragraph 19 of the report, the number of Member States which had paid all peacekeeping assessments due and payable should be changed from 23 to 26, to reflect sums received from France, Honduras and the United Kingdom of Great Britain and Northern Ireland. Finally, in paragraph 26 of the report, the number of Member States which had paid in full all due and payable assessments for the regular budget, the tribunals and peacekeeping operations should be changed from 18 to 21 to reflect payments from France, Italy and the United Kingdom of Great Britain and Northern Ireland.

3. **Ms. Halloway** (Belgium), speaking on behalf of the European Union, the acceding countries (Bulgaria and Romania), the candidate countries (Croatia and Turkey), the stabilization and association process countries Albania, Serbia and Montenegro and the former Yugoslav Republic of Macedonia, and, in addition, Liechtenstein and Ukraine, said that responding to the Secretariat's twice-yearly presentations to Member States on the Organization's financial situation was difficult. On each occasion, the European Union highlighted the risks to the Tribunals' operation and completion strategies, the serious cash-flow situation of the peacekeeping missions and the deficit in the regular budget, but the situation never improved substantially. Although more than one third of the way through 2005, only 72 Member States had made full payments to the regular budget. Meanwhile, peacekeeping budget arrears were already $2 billion and attempts to discuss incentives and disincentives were dismissed out of hand.

4. Member States faced budget constraints, but the United Nations could not do what Member States wished and expected without adequate resources. Peacekeeping was not free and the Organization could not afford to build up a debt to troop-contributing countries without jeopardizing their ability to continue providing troops. While the European Union must once again appeal to Member States to match their political will with the necessary funds, it emphasized that Member States would do no more than pay lip service to reform unless they financed the mandates which they themselves established.

5. **Ms. Taylor Roberts** (Jamaica), speaking on behalf of the Group of 77 and China, said that despite the improved cash position of the regular budget and that of the Tribunal and peacekeeping accounts at the end of 2004 compared to the end of 2003, there was no room for complacency. Judged by assessments authorized, unpaid assessments, available cash and amounts owed to Member States, the overall financial position for 2005 was not positive.

6. The Organization would need to resort to cross-borrowing from closed peacekeeping missions, particularly for the Tribunals, whose financial position was still precarious despite the reduction in outstanding assessments. Meanwhile, the level of peacekeeping assessments had doubled in 2004, with new and expanded missions placing additional strain on Member States. The worsening arrears in reimbursements to States, which were caused partly by delays in the signing of memorandums of understanding and partly by the failure to pay assessments, were a cause of concern.

7. The Group of 77 and China reaffirmed Member States' obligation under the Charter to bear the Organization's expenses, while allowing that some States might be temporarily unable to meet their obligations because of genuine economic difficulties. The Organization was responsible not just for peace and security, but also for development and the development activities mandated by the General Assembly should therefore be adequately funded.

8. **Mr. Kabuku** (Namibia), speaking on behalf of the African Group, which associated itself with the statement made by the representative of Jamaica on behalf of the Group of 77 and China, said that the situation of the International Tribunals remained a concern, with the International Criminal Tribunal for

Rwanda (ICTR) ending 2004 with a negative cash balance. Two thirds of the Organization's Members had contributions outstanding to one or both Tribunals, and a dozen Members had made no contributions at all. That affected the Tribunals' ongoing activities and the planning of future activities. Only timely payment of assessed contributions would enable the Tribunals to speed up their activities and complete their mandates. In that connection, the Group welcomed the lifting of the Tribunals' recruitment freeze.

9. While the peacekeeping budget was at its highest ever level, peacekeeping operations had immense long-term benefits and the Group was therefore bearing its share of the budget despite facing financial constraints. The crucial activities of ongoing operations were threatened by the fact that only 20 Member States had fully paid their assessments by the end of 2004 and still fewer had paid by the end of April 2005. The Group therefore favoured retaining the $93 million that was available in the accounts of closed operations, as the Secretary-General had proposed and the Advisory Committee had recommended.

10. All Member States must pay their assessed contributions to the various United Nations accounts in full and on time and voluntary contributions should not be linked to assessed contributions. Even as the Organization's financial needs rose, the need to improve the economic and social situation of developing countries in general and African countries in particular increased even more in scale and urgency. However, such efforts would translate into more stability and fewer peacekeeping activities.

11. Although the debt owed to Member States was lower overall in 2005 than in 2004, reimbursements had been delayed and seemed unlikely to accelerate. Many African countries were troop contributors and expected more regular payments in order not to jeopardize their continued participation in such operations.

12. Member States should remain sensitive to the unfortunate position of those among them who could not pay their contributions in full and on time because of genuine financial difficulties. Finally, the Group wished to express its appreciation to Egypt for the recent contribution of $10,000 to ICTR.

13. **Mr. Torres Lépori** (Argentina), speaking on behalf of the Rio Group, said that the Organization's financial situation continued to be fragile and serious problems remained. The scale of assessments often failed to reflect Member States' actual ability to pay, leading to arrears, particularly as peacekeeping budgets increased.

14. The Rio Group States made strenuous efforts to keep up with their payments, but had sometimes been unable to do so despite considerable sacrifice. Some were facing persistent financial crises with caused by factors outside their control and their inability to make timely payment must not be interpreted as a lack of commitment to the Organization. In fact, they strongly supported multilateralism and the United Nations as the foremost international forum.

15. While the slight improvement in reimbursements to States which contributed troops and equipment to peacekeeping operations was positive, a lasting effect would only come with the signing of memorandums of understanding and the payment of assessments.

16. **Mr. Ozawa** (Japan) said that the fragile financial situation of the United Nations was the cumulative result of increased expenditures arising from additional mandates and of Member States' failure to pay their dues. While recognizing that Member States must fulfil their obligations, he would like the Secretariat, in the interests of grappling effectively with emerging and compelling challenges, to consider three additional issues.

17. The first was to examine whether the Secretariat thoroughly explained its proposals for additional expenditure. Clearly, the draft budget should be explained comprehensively, particularly when it entailed additional expenditure. Although peacekeeping assessments had risen in 2004 to more than double the previous year's level and the regular budget had expanded significantly, in part because of additional safety costs and special political missions, Japan had been paying its contributions in full, with no conditions. That had been no easy feat, as the country's taxpayers were demanding scrutiny of all expenditure growth with increasing vigour.

18. Some peacekeeping budget proposals had been substandard from the point of view of accountability. Despite the Secretariat's time constraints, it should take accountability to Member States as seriously as Member States took accountability to their taxpayers. He shared the concern of the Advisory Committee that the Secretariat at times tried to introduce policy

changes without full explanation in the context of the budget.

19. The second was to examine whether the Secretariat made sufficient effort to utilize existing resources efficiently and effectively. Member States all agreed on that goal and had requested the Secretariat to submit at the current part of the resumed session a report on the review of the management structure of all peacekeeping operations. If the Committee had had that report, it could have considered how each mission could operate more effectively and efficiently.

20. Although the Organization had invested heavily in communication and information technology to build up its peacekeeping capacity, Member States had rarely heard of any resulting reductions in posts. Moreover, the Advisory Committee had observed that Headquarters seemed to have little or no involvement in monitoring the evolution of structures in individual missions. He therefore questioned whether the Secretariat was genuinely striving for optimum use of resources.

21. In the context of the regular budget, the General Assembly had requested the Secretary-General to begin the redeployment of up to 50 posts on an experimental basis during the current biennium. Regrettably, although the Secretariat could have used such flexibility to address new needs more efficiently and expeditiously, it had achieved little. More effort should be made to utilize existing resources through more active redeployment.

22. The third was to examine whether the Secretariat had struck the right balance between assessed and voluntary contributions. Higher assessments would not by themselves result in better outcomes. Proposals to use assessed contributions to finance activities that had been traditionally financed through voluntary contributions required careful and serious consideration, since they could have both intended and unintended consequences. The unintended consequences could be detrimental to the United Nations system as a whole. Assessed and voluntary contributions had different roles and characteristics and did not receive the same kind of political support. It was important to remember that assessed contributions were not subsidies.

23. The improved financial situation of the International Tribunals was a positive development and it was his understanding that they would not waver from their commitment to complete their work in accordance with their exit strategies.

24. His Government controlled expenditure and maintained financial health by paying close attention to the level of revenues, eliminating duplication and avoiding inefficiency. However, in the United Nations, revenue was based, in principle, on mandatory contributions and tended to be taken for granted, an expectation which did not pass the reality test. A very conscious effort must be made to enhance the Organization's budgetary discipline.

25. **Mr. Sun** Xudong (China) said that his delegation welcomed the improvement in the financial situation of the United Nations during 2004 and hoped to see further improvement in the future. However, the increasingly large peacekeeping budget had created certain difficulties for Member States regarding the timely payment of their assessed contributions. The Secretariat should update its statistics regarding China's peacekeeping assessments, since payments in the amount of $82 million had been made between 1 January and 18 May 2005. China had thus fulfilled its own responsibilities and obligations and trusted that other Member States would do likewise.

26. **Mr. Shin** Kak-soo (Republic of Korea) said that the financial situation of the United Nations presented a mixed picture. While the anticipated improvement in cash flow was a welcome development, the two International Tribunals were still expected to have a net negative cash balance by the fourth quarter of 2005. And although outstanding contributions to the regular budget had dropped by 19 per cent, the number of Member States having paid their assessed contributions in full had decreased and an end-of-year negative cash balance was forecast.

27. The financial situation of the International Tribunals remained a cause for concern. Those who committed egregious international crimes must be brought to justice, but the International Criminal Tribunals for Rwanda and the Former Yugoslavia had been costly and might be diverting resources from other vital United Nations activities, such as peacekeeping. Ensuring that the Tribunals completed their work on schedule would require diligent efforts on the part of all concerned and Member States must do their part by paying their assessments on time and in full. In so doing, they would not only be supporting

the cause of justice but would also be substantially reducing the overall cost of United Nations operations.

28. The cost of peacekeeping operations was continuing to rise. While his delegation welcomed the increasingly active peacekeeping role played by the United Nations, it remained concerned about the growing burden that those rapidly escalating costs had placed on Member States. The Republic of Korea had always paid its regular budget and Tribunal assessments in full and on time, but, owing to a combination of rising costs and increased assessments, it had not always been able to fulfil its obligations in respect of the peacekeeping budget. If that budget stabilized, as had been forecast, the Republic of Korea would be able to pay its future assessments in full, but emergencies were, by their very nature, unpredictable. The United Nations must be prepared to face any situation that arose and, in that regard, the Security Council should consult with major contributors during the decision-making process for new peacekeeping missions. A more transparent and consultative approach would give Member States a greater sense of ownership and help them to convince their Government to provide the necessary funding.

29. As the United Nations budgets grew, it was all the more important to subject them to detailed scrutiny to ensure that efficiencies were maximized. In that connection, his delegation encouraged the Secretariat to continue to expand its use of results-based budgeting, a valuable tool that could provide the kind of rigorous oversight required at every stage of the budgeting process. By giving a more detailed picture of the purposes and results of expenditures, results-based budgeting would help Member States to understand how their assessments were being used by the Organization. It would therefore be easier to convince domestic audiences that their assessments were being well-spent and should be paid on time.

30. **Mr. Iosifov** (Russian Federation) said that, despite the relative stabilization of the financial situation, there had still been no substantial change in the payment of assessment arrears, especially for peacekeeping. The Organization would be forced to resort to cross-borrowing and to delay reimbursement to Member States of amounts remaining in the accounts of closed peacekeeping missions.

31. The Organization's budgets had increased because the international community had been forced to respond to new challenges by stepping up peacekeeping activities. In those circumstances, all Member States must fulfil their financial obligations in full and on time, but they were also entitled to expect from the Secretariat prudent financial planning, realistically assessed human and financial resource requirements, financial discipline and accountability.

32. The Russian Federation paid its assessments in full and on time in order to lend comprehensive support to the Organization and called on all Member States to do likewise, to comply with the Charter and to consolidate the leading role of the United Nations in the system of international relations.

33. **Mr. Berti Oliva** (Cuba) regretted the late issuance of the Secretary-General's report on improving the financial situation of the United Nations (A/59/524/Add.1), which merited substantive discussion and follow-up by Member States. The situation described in the report was troubling, especially since the fundamental changes in the scale of assessments for the regular budget and the peacekeeping operations, adopted by General Assembly resolutions 55/5 and 55/231, had brought a significant increase in the assessed contributions of many States and had further undermined the principle of capacity to pay as the fundamental factor in determining the level of assessed contributions.

34. Partly as a result of the increase in assessed contributions following the lowering of the ceiling rate, a large number of developing countries, including Cuba, had been unable to pay their assessed contributions, despite their best efforts. Moreover, delayed reimbursements to troop-contributing countries was affecting their ability to repay their debts to the Organization. Action should be taken to correct that situation. In particular, the General Assembly should pay close attention to the payments made by the Organization's principal debtor, the United States, and, if necessary, raise the ceiling rate for the assessment of contributions for the triennium 2007-2009. Cuba remained determined to meet its financial obligations to the United Nations, despite the difficulties being experienced as a result of the genocidal economic, trade and financial embargo imposed by the United States.

35. **Mr. Mazumdar** (India) said that his delegation endorsed the statement made by the representative of Jamaica on behalf of the Group of 77 and China, as

well as the statement made by Belgium on behalf of the European Union. The Secretary-General's report gave several grounds for concern. It was alarming that so many Member States had still not paid their assessed contributions. The only positive note was that the absolute amount outstanding had fallen, despite the increase in assessments, indicating that the problem lay with a growing number of developing countries that were finding it hard to make payments. The Committee should address the question of whether the burden on such Member States could be reduced in order to place the finances of the United Nations on a sounder footing.

36. Since the cash position of the Organization was expected to deteriorate throughout the rest of the year, requiring cross-borrowing from the accounts of closed peacekeeping missions, it would be imprudent to draw down such balances in the form of reimbursements to Member States. The level of unpaid assessed contributions for peacekeeping operations was unacceptably high and the financial situation of certain missions, notably the United Nations Interim Administration Mission in Kosovo (UNMIK) and the United Nations Mission for the Referendum in Western Sahara (MINURSO), was a matter for concern. The General Assembly should take steps to resolve the issue and Member States that had not paid their assessments to those Missions should not try to block the search for a solution. Furthermore, the Secretariat could not afford to neglect payments owed by Member States for closed peacekeeping missions and should be more proactive in that regard.

37. India was also concerned about delays in the reimbursement of troop-contributing countries. Of particular concern was the situation with regard to the United Nations Organization Mission in the Democratic Republic of the Congo (MONUC), which was significantly behind other missions in that respect. It was regrettable that on an agenda item of such crucial importance, Member States were limited to formal statements, with no opportunity for detailed interaction and decision. Those who had opposed more comprehensive treatment of the item should explain the reasons why.

38. **Mr. Simancas** (Mexico) said that his delegation was concerned at the size of the total budget for peacekeeping operations, which had considerable impact on Member States' payment capacities. Mexico was determined to provide peacekeeping operations with the necessary resources, and had made considerable progress in that regard during the first few months of 2005. He hoped that strict budgetary discipline would be imposed with respect to the budgets of peacekeeping operations.

39. **Mr. Karia** (Director of the Accounts Division in the Office of Programme Planning, Budget and Accounts), responding to the statement made by the representative of Namibia, said that the budget of ICTR had indeed ended 2004 with a negative cash balance of $5 million. The projected outcome for the year 2005, based on the current pattern of receipts, was of a similar magnitude, but would ultimately depend on the level of contributions received.

40. **Mr. Gilpin** (Chief of the Contributions Service), responding to the statement made by the representative of China, said that, as indicated in paragraph 19 of the Secretary-General's report (A/59/524/Add.1), a significant volume of peacekeeping assessments had been received during the first few months of 2005, including significant payments by China. As of the end of April 2005, only two Member States, not including China, owed more than $100 million for peacekeeping.

Agenda item 108: Programme budget for the biennium 2004-2005 (*continued*) (A/59/441/Add.1)

Capital master plan

41. **Mr. Clarkson** (Officer-in-Charge of the Capital Master Plan Project) introduced the Secretary-General's report on the capital master plan (A/59/441/Add.1), which had been reissued for technical reasons. Annex III to the report contained the text of three letters from the host country addressed to the Under-Secretary-General for Management.

42. Addressing the questions raised by the Committee at its previous meeting (A/C.5/59/SR.53) concerning the host country's loan offer, he said that the Director of the General Legal Division would issue a written statement in response to questions that concerned the legal implications of the offer. A number of Member States had raised questions concerning the contents of the third annual progress report on the implementation of the capital master plan, which would be submitted to the General Assembly at its sixtieth session and would include a detailed assessment of the cost, advantages and disadvantages

of temporary locations during the period of refurbishment.

43. It should be recognized that the real estate market was constantly changing and that specific, up-to-date details would be required to determine the cost of temporary swing space for the capital master plan. Full details of possible funding modalities, including the option of paying for the plan through cash assessments, would be included in the third progress report, as would details on an appropriate cash reserve and the latest estimates of project costs, including revised construction estimates.

44. With respect to questions raised concerning expenditures, a breakdown of past expenditures and disbursements as well as projected monthly disbursements to the end of 2006 had been prepared and would be provided during the Committee's informal discussions. However, it should be recalled that the nature of the design and construction process was such that adjustments would need to be made throughout the project, particularly in the planning stage. On the advice of the programme management firm, several major design issues had been addressed early in the process. Schedules for other parts of the design work had consequently been pushed back, resulting in delayed disbursements. That process would produce a smoother and integrated design process, maintaining the 2007 schedule for completion of the design work. Three financial institutions had provided information to the United Nations, at no cost, regarding the offer of a loan by the host country.

45. With regard to questions about the advisory board that was to be established to provide input on financing and location options, a broad list of possible candidates had been developed. It was anticipated that three specialties would be required: financial experts, construction experts and experts on architectural integrity. It had been decided that the best strategy would be to approach potential chairpersons, who would then be able to advise on the formation of the board and on other possible candidates. The Under-Secretary-General for Management had held meetings with prominent candidates, but all had declined, on the grounds that membership of the board would require considerable knowledge of the plan, that board members would take on an implied liability, and that such advice was better obtained from working experts in the respective fields.

46. Consequently, a request for expressions of interest had been placed for a firm to act as consultant and adviser on financing issues, and construction advice was being obtained from the programme management firm. If independent advice on architectural integrity proved necessary, it would be required later in the project.

47. **Mr. Rashkow** (Director of the General Legal Division in the Office of Legal Affairs) drew the attention of the Committee to a memorandum from the Legal Counsel addressed to the Officer-in-Charge of the Department of Management regarding the process for accepting the loan offer of the United States Government.

48. Summarizing the essential elements of the memorandum, he recalled that a number of Committee members had not seen the content of the three letters from the host country contained in annex III to the Secretary-General's report (A/59/441/Add.1), and regretted any confusion that might have caused. In its letters the United States Government had set out the basic terms of the loan offer and indicated that the offer must be accepted by 30 September 2005. It had also requested an indication as to whether the United Nations intended to accept the offer. If that were the case the United States and the United Nations would enter into negotiations to conclude a loan agreement. The first step for the United Nations was thus to indicate in principle that it intended to accept the offer.

49. Paragraph 39 of the Secretary-General's report set out two fundamental understandings that would be requested by the United Nations, in addition to the basic terms set out by the host country. First, the loan agreement would not create for the United Nations any legal or financial obligation to borrow any part of the $1.2 billion from the host country or in any way restrict the Organization's discretion in deciding whether to borrow such funds. Second, the agreement would not restrict the authority and discretion of the United Nations to seek funds for the same purposes from any other source, if the Organization chose to do so.

50. The United Nations would also add a further understanding, to the effect that the agreement would permit the Organization to utilize the commitment of the United States Government to provide funds under the loan agreement as collateral for obtaining funds for the plan at lower interest rates than those provided in

the loan agreement, and otherwise permit the Organization to benefit financially from the temporary depositing of funds disbursed to the Organization.

51. If the United Nations was unable to reach an agreement with the United States Government that reflected those basic understandings and conditions, the matter would be referred back to the General Assembly. The United Nations would enter into an obligation only when the agreement was signed and only when it had borrowed money.

52. **Mr. Berti Oliva** (Cuba) said that the General Assembly would need further information in addition to that provided in the memorandum from the Legal Counsel before taking any decision on the host country's loan offer. The memorandum and the statement by the Director of the General Legal Division should be issued as official documents. In paragraph 5 of the memorandum, the Legal Counsel stated that the Administration was prepared to accept the basic terms of the loan agreement, as set out in the three letters from the United States Government. He would appreciate confirmation that that was the case.

53. **Mr. Jonah** (Sierra Leone) said that, while his delegation had no difficulty with the legal arguments put forward, it was concerned about the delays in securing a site for the construction of the swing space building. Those delays had arisen because of political, not technical or financial reasons. He sought assurance that the situation would be resolved before the deadline for signature of the loan agreement on 30 September 2005.

54. **Mr. Pulido León** (Bolivarian Republic of Venezuela) requested additional information concerning mixed funding arrangements. It would be helpful to know, for example, whether Member States that elected to pay their share of the capital master plan costs up front, rather than participate in the loan agreement with the host country, would be liable for the interest on the loan or for late payment fees. His delegation would not accept any arrangement under which it was required to pay interest.

55. **Mr. Simancas** (Mexico) expressed surprise that no reference was made in the memorandum from the Legal Counsel to the interest payable on the loan. The United Nations had never before taken out an interest-bearing loan. Moreover, at the maximum rate of 5.54 per cent, the total principal and interest repaid over the life of the loan would amount to over $2.5 billion, which was a very substantial sum.

56. **Mr. Matsunaga** (Japan) said that it was not clear to his delegation how the terms of the actual loan agreement would differ from those set out in the three letters from the United States Government (A/59/441/Add.1, annex III) and whether the provisions to be agreed on by 30 September 2005 included the amount of the loan and the repayment period.

57. **Mr. Elnaggar** (Egypt) asked what percentage of the funds required for the capital master plan would need to be available when the renovation began.

58. **Mr. Iosifov** (Russian Federation) observed that, according to the memorandum from the Legal Counsel, the basic terms of the loan offer were set out in the three letters from the United States Government. However, the scope and content of the most recent letter, dated 15 March 2005, differed from that of the first letter, dated 20 February 2004. He would appreciate clarification on the matter.

59. **Mr. Mazumdar** (India) noted that the Organization was required to send a letter to the United States Government indicating its intention to accept the loan offer and to conclude a loan agreement with the host country. It was his understanding that both steps would have to be completed before 30 September 2005. If that was the case, in the interests of transparency, the Secretariat should indicate to delegations in informal consultations what form the loan agreement would take.

60. **Ms. Wang** Xinxia (China) pointed out that, according to paragraph 3 of the memorandum from the Legal Counsel, if the Organization decided to accept the host country's loan offer, it would then enter into negotiations with the United States Government in order to conclude a loan agreement, whereas the Secretary-General's report (A/59/441/Add.1) stated in paragraph 39 (b) that the United Nations could accept the loan offer simply as a way of keeping that option open. The Secretariat should explain the differences between the two documents, legally speaking.

61. **Mr. Ng'ongola** (United Republic of Tanzania) asked how much Member States would pay in assessed contributions if the cash payment option were selected.

62. **Mr. Clarkson** (Officer-in-Charge of the Capital Master Plan Project) said that, while the United

Nations Development Corporation (UNDC) was endeavouring to secure the legislative approvals required for construction of the swing space building, the Administration could not give any assurance that that would occur before 30 September 2005. However, the time frame for the construction of UNDC-5 had no bearing on the loan agreement. Comprehensive information on the loan offer, including the interest payable, was provided in section II of the Secretary-General's report. The host country had offered a loan of up to $1.2 billion, which could be repaid over a maximum of 30 years. The United Nations would borrow no more than was needed to implement the capital master plan, and it would have the option of selecting a shorter repayment period.

63. It was important to distinguish between the construction costs for the capital master plan and the overall project costs. Projected construction disbursements, exclusive of swing space costs, were shown in table 1 of the Secretary-General's report. Revised figures would be provided in the third progress report. Approximately 50 per cent of the construction costs would have to be available when the work began. In other words, a loan agreement would have to be in place, or Member States would have to have paid the necessary amount through assessed contributions.

64. **Mr. Rashkow** (Director of the General Legal Division in the Office of Legal Affairs) said that the loan agreement would be between the United States Government and the United Nations. It would not stipulate what internal arrangements the Organization should make for repayment of the loan. That would be a matter for the General Assembly to decide.

65. While the three letters from the United States Government addressed different aspects of the loan offer, the basic terms set out were the same in each letter. As stated in the letter dated 15 March 2005, the overall amount of the loan and the repayment period cited in the three letters were the maximum loan amount and repayment term. However, the United Nations could choose a lower amount, a shorter term or a different disbursement period.

66. The memorandum from the Legal Counsel differed from paragraph 39 (b) of the Secretary-General's report in one important respect: paragraph 6 of the memorandum contained an additional understanding to the effect that, under the agreement to be concluded, the United Nations would have the option of using the host country's loan as collateral for obtaining funds from an alternative source at a lower rate of interest. That understanding was designed to protect the Organization's interests.

67. The United Nations was required both to send a letter to the United States Government indicating its intention to accept the loan offer and to conclude a loan agreement with the host country by 30 September 2005. Otherwise, the offer would expire. The loan agreement would reflect the basic terms set out in the three letters, as well as the additional understandings contained in paragraph 39 of the Secretary-General's report and paragraph 6 of the memorandum from the Legal Counsel. It would also include certain technical provisions. As indicated in paragraph 5 of the memorandum, the Administration was satisfied with the basic terms of the offer and ready to accept it. Accordingly, the memorandum had not addressed any alternatives to the option of an interest-bearing loan.

68. **The Chairman** said that the memorandum would be issued as an official document.

69. **Mr. Jonah** (Sierra Leone) said he was astonished at the assertion that there was no linkage between the loan agreement and the swing space arrangements. The first letter from the United States Government stated that its proposal was part of an overall package offered to the United Nations, which included the offers by the city of New York and the state of New York to construct a swing space building. Statements had been made in the United States Congress to the effect that, if the Secretary-General found alternative swing space, the loan offer would be reconsidered.

70. **Mr. Simancas** (Mexico) reiterated that there was no precedent in the Organization's history for accepting an interest-bearing loan. His delegation therefore wished to know why the memorandum from the Legal Counsel did not address that issue.

71. **Mr. Mazumdar** (India) noted that neither the Committee nor the General Assembly would have the opportunity to revert to the agreement negotiated between the United Nations and the United States Government before it was signed. However, there seemed to be a good understanding regarding the constituent elements of the agreement, and it should therefore be possible for the Secretariat to provide delegations with an outline of the agreement before the end of the current session.

72. **Mr. Rashkow** (Director of the General Legal Division in the Office of Legal Affairs), replying to the question posed by the representative of Mexico, said that the basic terms of the agreement, including the amount to be loaned and the rate of interest, were set out in the three letters from the United States Government, to which the Legal Counsel's memorandum referred. In addition to those basic terms and conditions, the proposed letter from the Organization to the United States Government would also include the two understandings set out in paragraph 39 (b) of the Secretary-General's report and one additional understanding, the details of which were contained in paragraph 6 of the memorandum.

73. With regard to the request made by the representative of India, before entering into negotiations on any kind of agreement, it was customary to agree on its basic terms and conditions. The contents of the proposed letter to the United States Government, as contained in the Legal Counsel's memorandum, were an adequate reflection of that process. In his view, it would be difficult to provide the Committee with a draft of the proposed loan agreement before the relevant negotiations were concluded, but he was prepared to defer to the opinions of his colleagues from the Department of Management and the Capital Master Plan Project on that matter.

74. **Mr. Clarkson** (Officer-in-Charge of the Capital Master Plan Project) apologized to the representative of Sierra Leone for any misunderstanding. The deadline for accepting the host country's offer of a loan, 30 September 2005, had no bearing on the UNDC-5 project.

75. **Mr. Mazumdar** (India) pointed out that Member States were being asked to authorize the Secretary-General to sign an agreement that they had not seen. In addition, one Member State was in the unique position of being on both sides of the negotiations. He reiterated his request that a draft copy of the proposed agreement, including the technical elements referred to by Mr. Rashkow, should be made available to the Committee.

76. **The Chairman** said that it was his understanding that the additional elements referred to by Mr. Rashkow consisted of the detailed technical provisions that routinely accompanied loan agreements and were designed to protect the interests of the lender and the borrower. Those provisions should not derogate from the fundamental parameters of the agreement as set out in the letters from the United States Government and the Legal Counsel's memorandum. Given that the Organization was in the rather unusual position of entering into negotiations with one of its Member States, it was unclear how much information could be made available to the Committee at the current stage. Nevertheless, he would be grateful if the Office of Legal Affairs could provide additional background material so as to facilitate consideration of the issue.

77. **Mr. Ramlal** (Trinidad and Tobago) recalled that, in document A/58/599, the Secretary-General had observed that the overall schedule for the implementation of the plan was dependent on three interconnecting factors: the availability of funding, the availability of swing space and the progress of technical preparations. In that connection, he endorsed the remarks made by the representative of Sierra Leone.

78. Turning to the request for authorization contained in paragraph 39 (b) of document A/59/441/Add.1, he noted that the proposed course of action represented a fundamental departure from the Secretary-General's original stance, which had been based on three considerations: the importance of ensuring that the capital master plan was implemented in a cost-effective and timely manner, the desire to minimize disruptions to the work of the Organization and a disinclination to resort to commercial borrowing. According to the second annual progress report on the implementation of the capital master plan (A/59/441), an interest-free loan would have been the most advantageous option for the United Nations, yet the report currently before the Committee suggested moving ahead with the process of obtaining an interest-bearing loan. It was difficult to understand how the situation had evolved so radically.

79. **Mr. Stoffer** (United States of America) observed that, in his report, the Secretary-General was merely asking the General Assembly to authorize him to conclude an agreement to preserve the option of accepting a loan from the host country. However, he wished to clarify a number of matters. First, the two additional understandings mentioned in paragraph 5 of the Legal Counsel's memorandum were perfectly acceptable to the United States Government. Secondly, the proposed loan agreement would not require negotiation, since the relevant terms of reference had

already been set out in the various reports of the Secretary-General. The agreement would mirror that concluded in 1948 for the financing of the construction of the Headquarters complex, a copy of which could be circulated during informal consultations.

80. Thirdly, 5.54 per cent per annum was the maximum rate of interest applicable to the loan. If the Organization decided to borrow less than $1.2 billion and/or opted for a shorter repayment period, that rate would decrease. Indeed, if the repayment period was set at 10 years, the resulting interest rate would be almost equal to the prime rate offered to United States banks by the Federal Reserve. Lastly, the Organization could use the full amount of $1.2 billion as collateral without ever drawing down any funds. Construction could therefore begin on time and Member States would not need to be assessed for a proportion of the construction costs in 2006.

81. The United States Congress had made provision for the loan in its fiscal budget for 2005, which would expire at midnight on 30 September 2005. If the Secretary-General decided to accept the offer, the funds would be made available immediately but the Organization would be under no obligation to draw them down. He stressed that Congress had made no provision for the loan in its 2006 fiscal budget and did not intend to do so.

82. **Mr. Clarkson** (Officer-in-Charge of the Capital Master Plan Project) emphasized that the General Assembly was not being asked to make a decision on whether or not to accept the loan from the host Government. Rather, it was being asked to keep all financing options open. A final decision on whether to finance the capital master plan through an interest-bearing loan from the host country, assessed contributions, voluntary contributions or commercial borrowing would be sought at the Assembly's sixtieth session.

The meeting rose at 12.30 p.m.